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RURAL DEPOSIT MOBILIZATION IN SELECTED ASIAN COUNTRIES

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INTRODUCTION

Resource mobilization is becoming increasingly important in many developing nations, partly because several countries are facing problems in continuing to obtain large amounts of foreign resources to finance their development. Commercial lenders are frightened by high levels of foreign indebtedness, and donor agencies are becoming reluctant to provide additional large grants and loans to some countries. Donors find that their total real resources are no longer growing at a rapid rate, and they are also concerned about international indebtedness. Concern is mounting over past inefficient use of such resources, and many analysts argue that foreign assistance permits decision-makers to postpone needed economic reforms. Further, many financial institutions that have received large amounts of aid have failed to attain the levels of institutional efficiency and viability expected when the aid was provided.

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1 We are indebted to Dale W Adams, J. D. Von Pischke, members of the APRACA Workshop and participants in seminars in Thailand and Bangladesh for helpful comments and suggestions. Remaining errors are our responsibility.

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Although the need for domestic resource mobilization is widely recognized, there is less consensus about the ability to mobilize rural funds. The rural sector must be the primary source of savings in most low income countries, however, because of its importance to GNP, exports and employment. Many policy-makers believe that voluntary deposit mobilization will not succeed in rural areas because of the low income of rural people, their preference for non-financial savings, and their skeptical attitudes toward formal financial intermediaries.

The purpose of this paper is to present information about rural deposit mobilization in selected Asian countries. Some Asian countries have done exceptionally well in deposit mobilization, especially compared to many developing countries in other regions. The central argument of the paper, however, is that the countries studied have not vigorously attempted to mobilize rural deposits because they have become dependent on cheap funds from donors and governments. Large amounts of rural deposits have been mobilized in Asia when serious attempts have been made, but systematic disincentives must be removed in many countries before the full potential for rural deposit mobilization is realized. The countries highlighted in this analysis are Bangladesh, Indonesia, the Philippines and Thailand, with selected information provided for other countries. These four countries are interesting because of their wide range in income levels and the different approaches they have taken to expand rural financial services.

DEPOSIT MOBILIZATION AS A SOURCE OF FUNDS

Bangladesh, Indonesia, the Philippines and Thailand have a mixed pattern of private deposit mobilization in their banking systems. Banks obtain funds in a variety of ways from governments, households, and domestic and foreign firms. Table 1 reports the share of private deposits in each country relative to total bank liabilities. Although there have been rather significant year-to-year variations, the banking systems in these countries report private deposits representing 50-75 percent of total liabilities. There appears to be a downward trend in Bangladesh and the Philippines since 1978, and since 1980 in Indonesia. In Thailand the share of deposits fell from 1970 to 1978, then rose to their highest level of 79 percent in 1982.

The magnitude of rural deposits is of special interest in this paper. Table 2 shows recent trends in these countries in rural deposits as a percentage of total deposits.[3] The Bangladesh data show a fairly consistent upward trend in rural deposits from under 10 percent of total deposits in 1976 to over 15 percent in 1982. The share of rural deposits in Indonesia was about 26 percent in 1976, and fell to 23 percent in 1983. In the Philippines, rural deposits represented 33 percent of total deposits in 1977, fell to 25 percent by 1980, then rose to almost

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[3] Data on rural deposits are at best approximate indications of deposits by rural households. Undoubtedly some urban households and businesses have deposits in rural areas along with local nonfarm firms and households. Likewise, some high income rural households have deposits in urban areas.

Table 1

Private Deposit Mobilization as a Percent of Total Bank Liabilities 1970-1982

Year	Country			
	Bangladesh[a]	Indonesia[b]	Philippines[c]	Thailand[d]
	(Percent)			
1970	NA	41	60	75
1975	74	56	56	72
1978	78	56	58	70
1980	72	61	51	75
1981	71	59	52	74
1982	67	56	52	79

a Includes demand and time deposits in commercial banks, nationalized banks, foreign banks, and agricultural and industrial development banks.

b Includes demand, time and savings deposits in commercial banks, foreign exchange banks, local development banks, savings banks and branches of foreign banks. Data also cover import deposits as well as foreign currency.

c Includes demand, savings and time deposits, import deposits, deposit substitutes, prepayments of letters of credit and foreign currency deposits in commercial, development, savings and rural banks.

d Includes demand, savings and time deposits as well as deposit substitutes in commercial, development and savings banks.

Source: International Monetary Fund, International Financial Statistics Yearbook, 1979.

International Monetary Fund, International Financial Statistics, September 1983.

Table 2

Rural Deposits as a Percent of Total Deposits
1976-1983

Year	Country			
	Bangladesh[a]	Indonesia[b]	Philippines[c]	Thailand[d]
	(Percent)			
1976	9.7	25.8	NA	34.2
1977	10.7	24.9	32.9	33.1
1978	13.6	23.5	31.9	31.9
1979	15.4	21.1	29.0	32.8
1980	14.9	22.0	24.6	33.8
1981	14.4	26.7	28.5	33.9
1982	15.6	27.4	30.7	34.1
1983	NA	23.2	NA	34.3

a Data for all banks as of June 30 for each year.

b Includes deposits in Bank Rakyat Indonesia and rural banks only. Data do not include deposits in cooperative units.

c Rural deposits are defined as deposits in areas outside Metro Manila. Deposits in other regional centers could not be identified and excluded from these estimates.

d Includes deposits mobilized by commercial banks and the Government Savings Bank.

Source: Country papers presented at the APRACA Workshop on Rural Savings Mobilization, Manila, October 3-5, 1984:
A. T. Mridha, "Country Paper on Rural Savings Mobilization in Bangladesh."
Siswanto, "Rural Savings Mobilization in Indonesia."
Technical Board for Agricultural Credit, "Country Paper on Rural Savings Mobilization in the Philippines."
B. Bavovada, "Rural Savings Mobilization in Thailand."

31 percent in 1982. The share of rural deposits in Thailand was about 34 percent in 1976 and fluctuated within a percentage point or two of that level through 1983.

The data in Tables 1 and 2 can be interpreted in two ways. One interpretation is that deposits, and especially rural deposits, have not become significantly more important in recent years as a source of bank liabilities. The second interpretation is that, since total deposits have been growing, private deposits and rural deposits have also grown significantly in nominal terms so their deposit share is roughly unchanged. In Bangladesh, for example, rural deposits grew from 10.6 billion Taka in June 1976 to almost 60 billion Taka by June 1982. While total deposits grew about 3-1/2 times in this period, rural deposits expanded six-fold. In Thailand, both rural and urban deposits roughly tripled from 1976 to 1982. While private deposits and rural deposits have not been an exceptionally dynamic source of bank liabilities, their growth clearly has not been a drag on resource mobilization through financial systems in these countries.

Another way to analyze rural deposit trends is to review the performance of specific financial institutions that are oriented towards the rural sector. These institutions may have advantages in rural deposit mobilization because of their objectives, their location in rural areas and their operational policies and procedures. For this analysis, data were obtained for the Bangladesh Krishi Bank (BKB), the rural banking system in the Philippines, and the Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand. These institutions are important sources of formal

agricultural credit in their respective countries. BKB provides about 60 percent of total rural credit in Bangladesh. The rural private banks provide about 14 percent of the rural credit in the Philippines, and BAAC provides about 35 percent of Thailand's formal rural loans. Tables 3, 4 and 5 report trends in the sources of funds for these lenders for 1978 to 1982.

The experience in mobilizing deposits is fairly similar in all three cases. Deposits are overshadowed by other sources of funds; governments, through central banks, provide the largest single source of funds to these institutions. BKB appears to be increasing deposits faster than other sources of funds as the deposit share rose from approximately 23 percent in 1978 to about 29 percent in 1982. The rural banks in the Philippines maintained their deposit share at about 31-32 percent. Deposits in BAAC represented about 16 percent of total funds in 1978. This percentage fell to 12 percent by 1980, and recovered to 15 percent in 1982. Government assistance to BAAC includes credit from the Bank of Thailand and regulations which require commercial banks to deposit funds with BAAC if they do not meet their agricultural lending targets. These two sources represent 50 to 60 percent of total BAAC funds.

It is clear from this analysis that these three rural credit sources are clearly not self-financed by deposits. In fact, they mobilize a smaller share of their resources than the rest of the banking system in their respective countries. The governments of these countries played an important role in creating these institutions and continue to provide them with the bulk of their

Table 3

Sources of Funds for the Bangladesh Krishi Bank
1978-1982

Year	Source				
	Deposits	Credit from Bangladesh Bank	Foreign Liabilities and Grants	Capital Account	Others[a]
	(Percent)				
1978	23	40	6	20	11
1979	25	44	5	15	10
1980	25	51	5	11	8
1981	28	51	4	8	8
1982	29	60	4	6	11

a Includes current liabilities and a loan from the government

Source: Asian Development Bank, "Appraisal of the Bangladesh Krishi Bank", Manila, November 1983.

Table 4

Sources of Funds for Rural Banks, Philippines
1978-1982

Year	Source			
	Deposits[a]	Credit from Central Bank	Capital Account	Others[b]
	(Percent)			
1978	32	48	16	5
1979	32	49	14	5
1980	31	51	14	5
1981	32	50	14	5
1982	32	49	13	6

a May include "seed funds" provided by government.

b Consists of liabilities to domestic sources.

Source: Technical Board for Agricultural Credit, "Country Paper on Rural Savings Mobilization in the Philippines," APRACA Workshop on Rural Savings Mobilization, Manila, October 3-5, 1984.

Table 5

Sources of Funds for the Bank of Agriculture and Agricultural Cooperatives, Thailand 1978-1982

Year	Source					
	Deposits[a]	Credit from Bank of Thailand	Credit from Commercial Banks	Foreign Liabilities	Capital Accounts	Others[b]
	(Percent)					
1978	16	16	44	4	14	6
1979	14	17	44	6	14	4
1980	12	26	40	6	12	4
1981	15	18	40	9	12	6
1982	15	17	40	11	12	5

a Deposits from business and the household sector

b Borrowings from the government and other liabilities

Source: Bank of Thailand, Quarterly Bulletin, December 1983.

funds. Expansion in deposits have been largely or wholly offset by the growth in funds from other sources so that the deposit share has been fairly constant from 1978 to 1982. The sources of deposits are not reported for these institutions, but it is likely that they come from a combination of rural and urban sources.

SUCCESS IN RURAL DEPOSIT MOBILIZATION

There are examples of rural deposit mobilization activities in Asia that appear more successful than the general experience summarized above. This section discusses a few examples.

Credit Unions[4]

The credit union movement is fairly young in some Asian countries but has already achieved considerable success in mobilizing deposits. With the exception of Korea, most credit unions are oriented towards a low-income rural clientele, and they are often located where other financial institutions are not accessible. Unlike most rural credit institutions, they frequently begin operations by emphasizing savings.

Table 6 shows that Asian credit unions reported almost $750 million in total deposits in 1983-84. This is a substantial amount of money mobilized from low-income people in the fairly short history of the movement. Furthermore, credit unions usually do not get many of the subsidies received by other financial institutions. In fact, even the legal environment in some

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[4] We are indebted to Paul Hebert, World Council of Credit Unions, for information about Asian credit unions.

Table 6

Financial Data on Credit Unions in Asia,[a] 1983-1984[b]

Country	Number		Dollar Volume			
	Credit Unions	Members	Deposits	Loans	Reserves	Assets
			(Millions)			
Bangladesh	11	13,301	0.4	0.3	0.0	0.4
Hong Kong	52	19,630	3.2	3.0	0.2	3.7
Indonesia	1,095	124,954	4.3	4.5	0.1	5.2
Japan	64	9,103	1.5	1.3	0.2	1.6
Korea	1,433	1,015,776	665.7	598.7	13.7	739.0
Malaysia	70	5,000	0.6	0.5	0.0	0.7
Papua-New Guinea	33	77,014	34.7	33.6	1.1	46.0
Philippines	44	38,000	4.3	4.8	0.3	6.0
Taiwan	281	54,490	32.9	32.4	2.2	38.4
Thailand	301	27,344	2.2	2.3	0.2	3.0
Total	3,384	1,384,612	$749.8	$681.4	$17.9	$844.0

a Includes only credit unions that are members of the Asian Confederation of Credit Unions (ACCU).

b Reporting dates varied between end of 1983 and early 1984.

Source: The World Council of Credit Unions, Statistical Report and Directory, Madison, Wisconsin, 1984, p. 5.

countries is uncertain for credit unions. In spite of these problems, the credit union experience demonstrates the potential for deposit mobilization even among low-income people.

Korea is the exceptional case. Recently Korean credit unions reported over $U.S. 1 billion in total assets. The Korean credit union movement is somewhat older than other countries (about 25 years), has enjoyed energetic leadership and a large part of the membership is composed of low-to middle-income urban workers with a check-off system to automatically deduct savings contributions from their incomes.

Agricultural Cooperatives in Korea

The deposit mobilization activities of Korean agricultural cooperatives have also been very successful (Lee, Kim and Adams). In 1975, there were more than 2 million farmer members in over 1,500 primary multipurpose cooperatives and 141 special-purpose cooperatives. More than 80 percent of the farm households were members of primary cooperatives. This cooperative system provided a number of services. The provision of financial services through the cooperative system was one way the government implemented its rural development strategy. In the early 1960's, funds from the government and Bank of Korea represented 60-75 percent of total loanable funds. From 1961 to 1975, the real value of loanable funds in the system increased fourfold. Expanded private savings deposits provided a large part of these additional loanable funds. By 1970, private deposits had risen from 20 percent to 50 percent of total funds. The proportion of

total savings deposits in the country held by agricultural cooperatives increased from 5 percent in 1963 to 16 percent in 1966. Likewise during the same period, the proportion of financial deposits in agricultural cooperatives increased from 14 percent to 17 percent of total financial deposits in the country. These percentages began to fall after 1966 because of the very rapid growth in non-agricultural economic activities.

DETERMINANTS OF SAVINGS BEHAVIOR

For rural deposit mobilization strategies to be successful, they must be built on an understanding of the determinants of savings behavior of households. The subject of savings behavior has been frequently studied and a recent paper by Lanyi and Saracoglu summarizes the key issues. Although individual studies have arrived at mixed conclusions in the past, a consensus of opinion now seems to be emerging.

Interest Rates

A fundamental question concerns the influence exerted by interest rates on saving. The alternative possibilities are summarized by Lanyi and Saracoglu (page 6): "While an increase in interest rate may stimulate savings by making future consumption less expensive relative to current consumption (substitution effect), it may also tend to reduce saving by lowering the amount of present saving necessary to buy a given amount of future consumption (income effect)." They conclude that the available evidence, largely based on Asian and Latin American experience,

suggests that the substitution effect is more important than the income effect in developing countries, although not overwhelmingly so.

The form in which savings are held is more important for our discussion of deposit mobilization than the amount of savings. In countries where interest rates have been depressed over long periods, where financial institutions and instruments are underdeveloped and fragmented, and where there is great economic and political uncertainty, the public has been encouraged to hold a large proportion of its savings in the form of real estate, consumer durables, precious metals and foreign currency. In these situations, rural savers concentrate their wealth in land, livestock, crop inventories and jewelry. When interest rate repression is an important determinant in this pattern of savings, a substantial increase in interest rates (at least large enough to insure positive real deposit rates of interest) can be expected to have a positive effect on financial savings.

Lanyi and Saracoglu conclude that the evidence from a number of countries shows that the real return on deposits has a significant effect on volume of financial savings. Malaysia and Korea were the two Asian countries included in their analysis and are identified as examples where a steady policy of positive inflation-adjusted interest rates can lead to steady growth in financial intermediation.

In his comprehensive review of credit and interest rate policies, Fry concluded that most Asian countries in the past few years have pursued policies which retard growth of the financial

sector and of the economy. Nominal institutional interest rates are usually set by administrative fiat leading to inflexible and frequently negative real deposit rates. In addition, all countries included in the study (Burma, India, Indonesia, Korea, Malaysia, Nepal, Pakistan, the Philippines, Singapore, Sri Lanka, Taiwan and Thailand) pursue targeting of credit through some form of selective credit policy or credit planning. This involves ceilings and/or floors for credit flows to priority sectors or borrowers, and differentiated interest rates set for size, group, sector or location of borrower, or for source of funds. In addition, government funds at subsidized rates are available for rediscounting loans to priority borrowers made by commercial lenders or specialized institutions. This combination of controls frequently leads to preferential interest rates for farm loans, low rediscount rates for farm lending, and low deposit rates for savings. Negative real rates often result for both agricultural loans and deposits.

This problem is demonstrated clearly in three of the four countries analyzed by the data for key interest rates reported in Table 7. Only the Philippines has a structure of partially floating interest rates that permits market forces to influence deposit rates. The other three countries administratively fix almost all lending, rediscount and deposit rates. Two key issues are noted in the data. First, the rates paid on some types of deposits are set at levels equal to, or even above, some agricultural lending rates. These deposit rates, of course, underestimate the effective cost of deposits for the intermediary

Table 7

Selected Loan, Rediscount and Deposit Rates

Rate	Country			
	Bangladesh[a]	Indonesia[b]	Philippines[c]	Thailand[d]
	(Nominal Interest Rates Per Annum)			
Lending Rates for Major Agricultural Programs:				
Short-term credit	12 & 17.5[e]	9 - 13.5	floating[l]	7 -14[n]
Medium/Long-term credit	13 - 14[e]	10.5	floating[l]	7 -16[n]
Deposit Rates:				
Demand	4.5[f] - 8.5[g]	3 - 9[i]	floating	0.5 - 9[o]
Savings	10	9, 12 - 15[j]	floating	9
Time (12 months & over)	14[h]	18 - 19[k]	floating	13
Rediscount Rates for Agriculture	6	3 - 4	floating[m]	5

a All rates effective from October 1980 for all scheduled banks. Recent changes in loan and rediscount rates for agriculture not included.
b Data as of 1984 except lending and rediscount rates are for 1982.
c Data as of March 9, 1984.
d Data as of 1982.
e Higher rate refers to loans from Bangladesh Rural Development Bank--Thana Central Cooperative Associations.
f Call deposits and special notice accounts withdrawable at notice.
g Savings accounts with checking facilities.
h Less than 24 months.
i Up to Rp. 1 million; 3% for balance over Rp. 1 million but less than Rp. 50 million, 6% for amount over Rp. 50 million.
j For Taska and Tabanas savings deposits, respectively. For Tabanas, 15% for the first Rp. 1,000,000 deposit; 12% for balance over Rp. 1,000,000.
k Lower rate is for state banks; however, they are now being aligned with those of private banks.
l Determined based on the Manila Reference Rate (MRR) for 90-day promissory notes. The MRR (90) is determined and announced weekly by the Central Bank and is based on the weighted average interest rate paid on 90-day promissory notes by 10 commercial banks with the highest levels of deposit substitutes during the applicable semester. For supervised and non-supervised agricultural credit, the lending rate is MRR (90) less 2 percent. For medium and long-term credit, the rate is MRR (90) less 6 percent.
m MRR (90) less 12 percent for supervised credit; MRR (90) less 8 percent for non-supervised credit; MRR (90) less 10 percent for other priority programs.
n Lending rates mainly for BAAC loans to individuals and farmer associations.
o Rates paid by Government Savings Bank.

Sources: Bangladesh Bank Bulletin, March 1983.
Bangladesh Bank, Annual Report 1982-83.
Bank Indonesia, Report for the Financial Year 1982-1983.
Bank of Thailand, Quarterly Bulletin, December 1983.
P. Villegas and M. Crisostomo, "Agricultural Credit Policies in the Asian Countries," Singapore, November 1981.
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Technical Board for Agricultural Credit, "Country Paper on Rural Savings Mobilization in the Philippines", October 1984.
Siswanto, "Rural Savings Mobilization - Indonesia", October 1984.

because they do not include the effect of reserve requirements and administrative costs. Therefore, in many cases, the effective cost of some types of deposits is considerably higher than agricultural loan rates.[5] Second, rediscount rates are frequently less than interest rates paid on some types of savings and time deposits. The spread between rediscount rates and agricultural lending rates are not large in all cases, but they are frequently larger than those for lending mobilized deposits.

This interest rate structure helps explain the performance of deposit mobilization in these four countries. Financial institutions, especially those required or encouraged to make agricultural loans, cannot afford to mobilize large amounts of private deposits. They must rely heavily on subsidized sources of funds, and rediscount funds are frequently the cheapest and most reliable source. Furthermore when commercial lenders mobilize deposits in rural areas, they frequently channel them to urban areas where lending rates carry higher maximums. Savers are discouraged from saving through financial instruments by low and negative real rates of return. Interest rate reform is a necessary condition for increasing incentives for savers to demand financial instruments and for increasing incentives for financial institutions to supply attractive financial instruments to savers.

[5] The average cost of funds to an intermediary is, of course, lower than the rates shown in Table 7 because some types of deposits earn low or zero rates of interest.

Access to Banking Facilities

Although the rural population in low-income countries is responsive to deposit rate changes, there may be little scope for deposit mobilization if there is limited access to financial institutions. It appears that the four countries discussed in this paper recognize this problem and have pursued policies to expand the network of rural banks and/or bank branches. The data in Table 8 report the growth in numbers of rural deposit-taking institutions from the early 1970s to the early 1980s. The definition of banks used in the data sources consulted varied over time in these countries, but it is clear that a large increase has occurred in a number of these institutions in rural areas in all four countries. The increase represents a tripling in Bangladesh, at least a doubling in Thailand, the Philippines, and a fifty percent increase in Indonesia.

Governments carefully regulate the creation of new banks and branches. These four countries have used a variety of measures to stimulate the expansion of banking into rural areas. Bangladesh placed considerable importance on expanding rural banking services in the second half of the 1970s. Beginning in 1976 the nationalized commercial banks were required to provide agricultural loans, and until 1981 the Bangladesh Bank required them to establish two rural branches in order to obtain a license to open an urban branch. By 1982, two-thirds of the branches of scheduled banks were located in rural areas compared to less than half in 1976 (Rana). This expansion is associated with the large increase in rural deposits mentioned above. This policy has been

Table 8

Number of Rural Deposit-Taking Institutions in Bangladesh, Indonesia, Philippines and Thailand 1970-1983

Year	Country			
	Bangladesh[a]	Indonesia[b]	Philippines[c]	Thailand[d]
1970	NA	9442	486	765
1975	1114	11342	768	1037
1978	1941	13872	NA	1444
1980	2839	14337	1155	1639
1981	3265	14977	NA	1722
1982	3387	14999	1190	1813
1983	NA	15898	NA	1907

a Includes units, rural branches, field or extension offices of all banks and all data as of June 30.

b Includes units, branches, field or extension offices.

c Refers only to rural banks and their branches, including cooperative rural banks. Excludes rural branches/offices of other agricultural lending institutions.

d Includes commercial and savings banks, finance companies, cooperatives, credit unions and government institutions.

Source: Country papers presented at the APRACA Workshop on Rural Savings Mobilization, Manila, October 3-5, 1984:
A. T. Mridha, "Country Paper on Rural Savings Mobilization in Bangladesh."
Siswanto, "Rural Savings Mobilization in Indonesia."
Technical Board for Agricultural Credit, "Country Paper on Rural Savings Mobilization in the Philippines."
B. Bavovada, "Rural Savings Mobilization in Thailand."

suspended, however, because the expansion was not coordinated, resulting in a surplus of branches in some areas while other areas still have none. Furthermore, Rana reports that a large proportion of rural branches are not viable because of the low rate set on agricultural loans and because commercial banks can obtain subsidized rediscount funds for only 50 percent of their agricultural loans. The banks, therefore, are still basically urban-oriented and channel a considerable volume of rural deposits to urban areas.

The Rural Bank Act of 1952 marked the beginning of a major effort in the Philippines to expand banking into rural areas. Under the Rural Banks Program, the Government provided equity capital to match private investment in rural banks on a peso-for-peso basis. The Central Bank and other government agencies provide technical assistance in the organization and operation of rural banks, training of officers and farm advisory services. An important incentive is the rediscount privilege with the Central Bank at preferential rates of interest and rural banks are exempt from a variety of taxes, charges and fees. Some rural banks accepted demand deposits, but now this function has been exclusively granted to commercial banks. With these incentives, the number of rural banks multiplied at a fast rate, reaching 931 banks with 1,029 offices by 1978 (Lee and Jao). Serious loan repayment problems have created great financial problems recently for many rural banks and has slowed their expansion. Various measures are being implemented to ease the liquidity problems created by slow loan recovery (APRACA).

In Thailand, the Bank of Thailand relaxed its tight control over opening new commercial bank branches in 1975. In 1976, about three times as many branches were opened as compared to the average number opened per year during the previous four years. However, the rate of expansion slowed in 1977 because the banks experienced difficulty in meeting the credit target which required that at least 60 percent of their local deposits must be lent in the local area and at least one-third of the loans had to go to farmers (Meyer, Baker and Onchan).

Other Determinants of Deposits

Interest rates and access to financial institutions are likely to be key determinants of rural deposits in most situations, but other subtle, less well-documented factors may also be important. The effective rate of return on deposits is an important issue. The real interest rate is a key variable in determining effective rates, but there are other factors. Several countries have used prizes, raffles, lotteries, and other devices to stimulate interest in deposits. Prizes raise the effective rate of return, while raffles and lotteries introduce the possibility of earning an exceptionally high return while appealing to the gaming interests of savers. Complicated procedures for making and withdrawing deposits work in the opposite direction by lowering the effective rate of return. Studies of the transactions costs of borrowing show that the value of non-interest costs sharply increase the effective cost of formal loans (Adams and Nehman, Ahmed). Likewise, the value of time lost to make and

withdraw deposits, the costs of passbooks and photographs for identification cards, and other miscellaneous costs can significantly reduce the real return on deposits. Von Pischke argued that the potential advantage for rural people to use financial services in the early stages of financial development may be convenience, that rural deposits may be more "service" than interest elastic.

The challenge for financial intermediaries is to develop cost-effective services that will provide the convenience and safety necessary for rural people to institutionalize their savings. Although the potential for rural deposit mobilization is great, the unit cost per depositor or account may be large for small deposits made by poor people. Some of the costs and procedures imposed by institutions are used to screen out small deposits. Some institutions accomplish this by setting limits on the minimum size of initial and/or existing accounts which are high compared to rural incomes. Innovations and streamlined procedures are required to reduce costs and open up deposit possibilities for more savers. A small amount of the huge subsidies currently spent for agricultural loans should be directed towards institutions that experiment with savings innovations so solutions to these problems will be more quickly found.

Banks are highly regulated institutions and as such have relatively high costs. It will always be difficult for them to reduce costs. Credit unions may have greater potential in this area because they are less regulated and have found ways for

depositors to willingly assume some of the administrative costs. Their experience may suggest ideas that other institutions can adopt to reduce costs.

CONCLUSIONS

The major financial institutions in Bangladesh, Indonesia, the Philippines and Thailand have not been very successful in mobilizing rural deposits. Fragmentary data suggest, however, that a large untapped deposit potential exists. Institutions heavily engaged in agricultural lending often have few incentives to mobilize rural deposits. The administered interest rate structure that exists in these countries combined with high reserve requirements are major disincentives because rediscount or other government funds are cheaper sources of funds than deposits. Interest rate reforms are required that increase the return to savers, raise the cost of refinance funds relative to deposits, and increase the lender's return from rural loans. The establishment of floating deposit rates in the Philippines and the recent increase in rediscount and lending rates for agriculture in Bangladesh are steps in the right direction. The recent expansion in rural banking in all four countries is also helpful by making deposit facilities more accessible. The challenge now is to identify how institutions can efficiently mobilize large numbers of small deposits by offering convenient and safe services with a high effective return for savers yet keep bank transaction costs to manageable levels.

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